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Views of The Government of Alberta

Concerning

The Canadian Oil Industry

A Submission to The Government of Canada

March 14, 1969

Honourable Harry E. Strom, Premier

Province of Alberta

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Summary

1. Canada's oil industry is vital to its economy and security. To assure the continued development of the industry Canada's policy must be directed towards maximum use of Canadian oil in its domestic markets and maximum growth of its exports to the United States.

2. Canada's National Oil Policy, devised in 1961 and suited to the circumstances of the early and mid-1960's, urgently needs strengthening in application and broadening in scope.

(a) There is need for immediate action to terminate imports and transfers of products to markets West of the Ottawa Valley in contravention of the Policy.

(b) Immediate action is required to prevent any possible reduction in the effectiveness of the Policy as a consequence of the planned construction in Eastern Canada of excess refinery capacity designed for use of overseas crude oil.

(c) Clarification is needed that in the event of the development of offshore production on

the East Coast, or Canadian Arctic production transportable by tanker to the East Coast, the Policy will require that such production displace imported overseas crude oil and not penetrate markets West of the Ottawa River.

3. A number of recent developments, including the Alaskan discoveries, make it imperative that Canada continue to make the strongest representations to the United States to ensure future growth in Canada's oil exports.

4. The Canadian Government should recognize a basic inconsistency in allowing Canada to remain over 50 per cent dependent on overseas oil while expecting the United States, which severely restricts its imports of overseas oil, to accommodate increased Canadian exports. The Canadian Government should declare, as policy, its decision gradually to reduce its dependence on overseas imports.

5. Canada's National Oil Policy urgently requires a full reappraisal and a reorientation into a North American Oil Policy developed co-operatively with the

United States. Senior Federal officers should seek co-operation and advice from industry and the Provinces both in this reappraisal and in the development of a North American pOlicy.

6. Alberta believes the scope of the assignment to the Task Force on Alaska and Northern Canadian Developments should be broadened to include offshore developments on the West and the East Coasts. Assistance from industry and the Provinces should also be sought for this study.

1. Introduction

The Alberta Government is seriously concerned about recent developments relating to markets for Canadian oil and considers it important and timely that it express its concerns in order that the Government of Canada may take the necessary actions in the interests of Canada's important oil industry. As introduction, and so that the problems may be seen in their true perspective, the basic facts of the exploration and production part of the oil industry are highlighted in the following.

The petroleum industry is of vital importance to the Alberta economy and has considerable significance to the total Canadian economy. During the last twenty years some 13 billion dollars have been invested in the exploration and production aspects of the industry in Canada. The gross value of Canadian production of oil, gas and by-products in 1968 was some $1,300 million at the points of production. The value of the industry's exports at the points of exports was some $645 million.

While the volume of Canadian petroleum production is impressive, it is nevertheless substantially less than the capability of the industry. In 1968

the industry had a productive capability of some 2.7 million barrels per day but market limitations have restricted production such that the actual rate of production was just over 1.1 million barrels per day.

Canada's 1968 requirements for oil were some 1.3 million barrels per day. Close to one half of these requirements were met from Canadian production with the remainder being imported largely from overseas sources. In 1968 Canada's exports of oil, which were confined to the United States, averaged some 450,000 barrels per day, or 200,000 barrels per day less than Canada's total imports.

In other words Canada, with a productive potential of twice its total requirements, produces only about 42 per cent of its potential - a volume equivalent to some 84 per cent of its own requirements. Moreover, with some 40 per cent of Canada's production going to export markets continued growth in these markets is vital to the overall health of the industry.

Production from Alberta represents some 70 per cent of the Canadian total. Furthermore, virtually all of the spare productive capacity is located in Alberta with the other producing Provinces producing at or close to their capacities.

Additional salient facts concerning the Alberta and Canadian oil producing industry are presented in Appendix A.

Alberta wishes to advise the Canadian Government of its views with respect to five matters of immediate concern. These relate to

(i) the continued effectiveness and the scope of the domestic aspects of the National Oil Policy,

(ii) the importance of continued growth in the export of Canadian oil to the United States,

(iii) the need for a policy decision by the Canadian Government relating to the future level of imports of overseas oil to Canada,

(iv) the need for a full reappraisal of Canada's National Oil Policy and a reorientation of it into a North American Policy developed with the United States, and

(v) the need for a broadening of the scope of the assignment to the Task Force on Alaska and Northern Canada Developments.

2. Premises

The basic premise of the Alberta Government is that Canada's oil industry is vital to our economy and security and that it is in the national interest to see it grow and prosper. With Canada's present proven oil reserves, the vast reserves of Athabasca type oil sands, and the reserves which undoubtedly will be found in unexplored areas, economic supplies of crude oil much in excess of Canada's own needs are assured. Under present conditions Canada's policy as a nation must therefore be directed towards maximum use of Canadian oil in its domestic markets and maximum growth of its exports to the United States.

3. Canada's National Oil Policy: Domestic Aspects

Canada's National Oil Policy was devised in 1961 and until recently has been reasonably successful in ensuring for Canadian producers a share of the domestic market and growth in the export market. In the past year or two developments have occurred which seriously threaten the present policy and which have produced such drastically changed circumstances as to require an early full reappraisal of the entire policy. Certain problems relate to the effectiveness of the policy as presently constituted. Others concern desirable changes in the policy's structure and content.

With respect to current problems, the Alberta Government appreciates that the National Oil Policy reserves the Ontario market West of the Ottawa Valley for Canadian oil, with the exception of certain specialty product requirements - mainly heavy fuel oils. In each of the past two years net imports and transfers of gasoline and middle distillates into Ontario West of the Ottawa Valley are estimated to have been in excess of 20,000 barrels per day. The Alberta Government considers these imports and transfers to have been in contravention of the National Oil

Policy and requests that the Policy be strictly applied and that such movements be eliminated. Moreover, the Government also believes that for the Policy to be fully effective it is essential that refinery capacity be provided in Ontario which is adequate to meet Ontario requirements. Alberta requests that the Federal authorities, in consultation with industry, ensure satisfaction of this objective.

The Alberta Government is also concerned about the possible impact of proposed refinery construction, designed to utilize imported oil, in Eastern Canada on the effectiveness of the National Oil Policy. Alberta believes that if all of these plans were consummated, refinery capacity in areas in Eastern Canada would be considerably in excess of that necessary to meet the anticipated growth in the market requirements of the area, even after allowing for some substitution of product imports. The Alberta Government considers that this situation makes it imperative that the Federal Government reaffirm its intention to implement the full intent of the National Oil Policy. In addition, the Federal Government should ensure that refiners, existing or new, in Eastern Canada clearly understand the Federal Government's intention to adhere to its Policy, if necessary by the imposition of import controls.

The Alberta Government notes that several proposed refineries in Eastern Canada are located in "designated areas" and would qualify for taxation incentives and subsidies. Alberta believes this development will result in a conflict between the objectives of the National Oil Policy with respect to the reservation of markets and the objectives of subsidized investment policies. Alberta does not believe that the effectiveness of the National Oil Policy should be impaired through the stimulation of investment by special incentives.

The Alberta Government also submits that the scope of the National Oil Policy should be extended immediately to embrace exports from Eastern Canadian refineries of products derived from overseas oil. The Alberta Government has no objection if such exports are disposed of in areas clearly independent of export markets for Canadian oil. However, Alberta believes that the movement of products refined from overseas oil to markets which either directly or indirectly affect existing or potential Canadian oil exports should not be permitted. Such would be the case if products derived in this manner were marketed in the United States.

Another factor to which the Alberta Government believes Federal authorities should give early con-

sideration is the marketing of oil from potential Canadian East Coast discoveries or Canadian Arctic production transportable by tanker to the East Coast. Alberta believes that any such oil should be directed towards the replacement of imports from overseas sources and not be permitted to penetrate markets West of the Ottawa River or otherwise affect the market opportunities for Western Canadian oil.

4. Exports of Canadian Oil to the United States

With the vital importance of oil exports to the United States, any developments which might restrict the growth of these export markets have serious implications for the economy of both Alberta and Canada. Recent developments respecting the United States market have caused great concern in Alberta.

It is recognized that the United States Oil Import Program in which overland supplies from Canada have special status, has been under attack by some segments of the United States industry. On the other hand the recent tabling in the House of Commons of the informal agreement between the United States and Canadian Governments has focused attention on the real restrictions applied to the export of Canadian oil, a matter of dissatisfaction both to the Canadian industry and to many United States refiners.

The growth of the petroleum industry in Western Canada has been stimulated in recent years by anticipation of continued growth in exports to the United States. The Alberta Government is concerned that the recent oil discoveries in Alaska could have a serious impact on this situation. Plans have already been announced for the construction of a

large diameter pipe line from Prudhoe Bay to the west coast of Alaska. Oil will then be transported by tankers to refinery areas in California and the Puget Sound area in Washington. With this major additional supply source available to United States refineries on the West Coast it is quite probable that within a few years virtually all of the oil requirements of this area will be met from United States sources. The unfavorable impact on Canadian exports to the Pacific North-West is apparent. There is also the possibility of Alaska production reaching the United States Mid-West refining areas which are of such vital importance to the Canadian industry.

The recent announcement by President Nixon that he had requested a full review of the oil import program further demonstrates the uncertainties that exist regarding the export market. All of these factors lead the Alberta Government to conclude that it is imperative that the Unites States government be fully apprised of Canada's views with regard to these matters.

Alberta's present concern is primarily with the exports to the United States to the mid-1970's since it believes that, in the longer term, growth in the

United States requirements for petroleum will be such as to make Canadian supplies not only attractive but necessary, especially in view of national security considerations. Nevertheless it is clear that any disruptions in the growth of Canadian exports would have a serious impact on the Canadian economy and could adversely affect the availability of Canadian supplies to the United States in the long term.

Alberta urges that immediate negotiations be carried out between the United States and Canadian Governments with a view to ensuring that Canadian exports to the United States will increase at a satisfactory rate during the next few years. The basic facts favoring this policy are the rapidly increasing needs of the United States for foreign supplies of oil, and the ready and assured availability of Canadian supplies, both now and in the long term future. It is recognized that imports from overseas also provide a supply source for the United States but because these areas are not reliable during emergencies they have serious disadvantages in terms of national security. A healthy petroleum industry is important to both countries and this can be achieved by the orderly

development and marketing of petroleum resources in both United States and Canada. Such a program would meet the common interests in national security and would provide mutually beneficial trade relations. Thus, the matter at stake is the development of a North American Oil Policy through which the United States, for present and long term security reasons, would place greater reliance on Canadian supplies.

Alberta believes that oil from the North slope of Alaska and Northern Canada will play a significant role in meeting the future long term requirements of both the United States and Canada. Oil from these areas may well require transportation facilities in addition to the announced trans Alaska pipe line. It is appreciated that the special Task Force appointed by the Canadian Government, and referred to later in this document, has the assignment of analyzing the oil prospects in these areas and the means of transporting oil of the areas to market. It is clearly too early to know which of several transportation possibilities will be the most desirable. Tanker movements to the East Coast, the feasibility of which will be investigated within the next few months, present, for both

countries, the possibilities of displacing overseas imports. On the other hand, should it be economically attractive, there would be significant advantages to Canada in linking these northern oil producing areas to the major Great Lakes industrial area by means of a pipe line passing through the prospective areas of the North West Territories and Alberta. The Alberta Government believes that not only should these matters be assessed by the Canadian Task Force but arrangements should also be made for a joint study of them by representatives of Canada and the United States.

In discussions with United States officials on the matter of the export of Canadian oil into the United States, the question of synthetic crude oil from the Athabasca deposits may arise. Alberta's policy with respect to the further commercial development of such production is one of encouragement, subject only to the provision that it not materially affect the market opportunites for conventional crude oil. Alberta believes the further development of synthetic crude oil technology to be important to the long range security of both Canada and the United States. It would urge that this view be supported to the United States.

Another matter that the Alberta Government believes is related to oil export markets is the export of Canadian gas to the United States. There is every reason to believe that the United States is going to require increasing quantities of gas from Canada to meet growing deficiencies in its own supplies. Unlike oil, however, deficiencies in gas supply cannot so easily be met from overseas imports and moreover such sources have the previously referred to disadvantages regarding national security. Alberta is confident that gas reserves adequate for export will continue to be developed providing there are sufficient incentives, but it must be recognized that any retardation in the growth of oil exports will inevitably reduce exploration incentives.

5. Imports of Overseas Oil into Canada

While Canada must immediately press for higher exports of Canadian oil to the United States as an urgent matter of national importance, at the same time Canada must face the fact that, in contrast to Canada, the United States has imposed restrictions on the imports of foreign oil. The objective of these restrictions, in the interest of national security, is to preserve and maintain a healthy domestic petroleum industry and to prevent undue reliance on foreign imports.

Currently the effect of the United States import program is to limit imports of foreign oil, excluding overland oil from Canada and Mexico, to some 16-17 per cent of United States domestic requirements. By reason of this United States policy, the United States consumer pays a higher price for petroleum products than would be the case if United States refiners could import unlimited supplies of cheap overseas oil. This represents the cost to the consumer of maintaining a healthy industry in the interest of national security. Canadian oil entering the United States enjoys a special status by reason of the Overland Exemption negotiated in 1959. As a result, Canadian oil comes

under the protective price umbrella accorded to United States domestic oil, and does not have to compete directly with overseas imports. Thus, the additional cost of Canadian oil over that of overseas imports is borne also by the United States consumer in the interest of national security.

Canada on the other hand relies on overseas oil imports for 51 per cent of its domestic requirements. One of the main criticisms levelled in the United States at the volume of Canadian imports, is the disparity between the two countries in their dependence upon overseas imports. It is unrealistic for Canada to expect the United States to accommodate significantly larger volumes of Canadian oil at United States expense while Canada does little to reduce its imports of overseas oil. If Canada seriously expects to enjoy large markets in the United States in the next few years it must restrict its overseas imports.

In connection with this necessary revision of Canada's National Oil Policy, the Federal Government should take immediate steps to halt the new refinery construction in Eastern Canada, designed to process foreign crude oil, pending a policy decision concerning overseas imports.

6. Reappraisal of Canada's National Oil Policy: A North American Oil Policy

Alberta is convinced that if Canada is to see its oil industry develop as it should it is essential that the National Oil Policy be now fully reappraised in the light of the present day and probable future situation. Alberta urges that the Government of Canada immediately address itself to the policy question of the restriction of overseas imports and state, as policy, that such restrictions on some practical formula, which would ensure continued economical supplies of crude oil to Eastern Canada, will be introduced in the near future.

With this policy matter settled the Canadian Government could then request its officers

(i) to develop a specific program for the progressive restriction of overseas imports,

(ii) to reappraise all aspects of the National Oil Policy, and

(iii) to enter into serious negotiations with the United States for the development of a true North American Oil Policy. The essential elements of a sound North American Policy should include

(a) the application of common concepts in the regulation of imports of overseas oil,

(b) the removal of artificial barriers to the entry of Canadian oil into United States markets, and

(c) the sharing of markets and transportation facilities of the two countries in such a way as to assure the optimum development of the petroleum resources of both countries.

The Government of Alberta requests that these, or equivalent steps be taken as soon as possible. It would be pleased to assist in any way possible.

7. Task Force on Alaska and Northern Canada Developments

The Alberta Government has noted that the Federal Government has appointed a special Task Force to appraise the impact on Canada of the possible developments in Alaska and Northern Canada. Because the impact of such developments could be greater on Alberta than on any other region of Canada, the Federal Government will recognize the very real concern of the Alberta Government in the nature and scope of these studies.

Alberta assumes that objectives for the work of the Task Force have been defined and asks that the heads of the Provincial Governments be informed of them. Alberta also requests that the scope of the consideration be broadened to encompass the impact of possible offshore developments on both the West and the East coasts of Canada.

Alberta believes that the work of the Task Force would be assisted by consultation with people in the oil industry and with Alberta's Oil and Gas Conservation Board. If a special staff is to be seconded to assist the Task Force Alberta would urge that advantage be taken of the general willingness of industry to loan specialists to the Government on such occasions.

Alberta is in full accord with the importance of the matters assigned for study to the Task Force and believes that they warrant not only an early initial appraisal but continual assessment as developments occur. Alberta would not wish, however, to see these studies delay the urgently required adjustments to the National Oil Policy, the policy decision on the restriction of overseas imports, or negotiations with the United States on a North American Oil Policy.

APPENDIX A

Salient Facts About Canada's Oil Industry

Final oil statistics for 1968 are not generally available at this time (March, 1969). Accordingly, for accuracy the data following have been confined to 1967. However, the pattern for 1968 is not anticipated to be markedly different. Throughout this Appendix oil is defined as conventional crude oil and pentanes plus (field and plant condensate)

Supply

The following figures relate to productive capacity and utilization for existing reservoirs in Canada.

1967

	Productive Capacity*(end year)		Production (Yearly average)	Production as % of Productive Capacity	
	Potential b/d	Installed b/d	b/d	Potential	Installed
British Columbia	80,000	65,000	57,000	71	88
Alberta	2,187,000	1,590,000	712,000	33	45
Saskatchewan	270,000	270,000	254,000	94	94
Manitoba, Ontario and NWT	30,000	25,000	21,000	70	84
Total Canada	2,567,000	1,950,000	1,044,000	41	54

* Oil and Gas Conservation Board estimate.

Source: Oil and Gas Conservation Board.

Areas other than Alberta produce at, or close to, capacity. The excess of both existing installed and potential Canadian capacity is located in Alberta.

Another indication of productive potential from existing reserves is given by the reserve to production ratio, that is, the remaining proved reserves divided by the annual producing rate. The figures for 1967 are:

	Conventional Proved Reserves of Oil (year end) Millions of Barrels	Reserves/Production Ratio Years
Alberta	7,806*	30
British Columbia	310	15
Saskatchewan	729	8
Manitoba, Ontario and NWT	119	16
Total Canada	8,964	24
U.S.A. (excludes pentanes plus)	31,377	10

* Excludes synthetic oil from Athabasca-type oil sands of some 340 billion barrels.

Source: Oil and Gas Conservation Board, Canadian Petroleum Association, American Petroleum Institute.

The reserves production ratios again indicate the predominance of excess capacity in Alberta. Of interest is the fact that the Canadian reserves production ratio is more than double that for the U.S.A.

Canadian Requirements

Requirements for oil in Canada in 1967 amounted to some 1,250,000 barrels per day. Of this total, some 538,000 barrels per day (43%) was consumed in Quebec and the Maritime Provinces and some 712,000 barrels per day (57%) in Ontario and Provinces West of Ontario. Over the past five years, the annual rate of growth of Canadian oil requirements has averaged some 6.1 per cent, with the growth rate in Quebec and the Maritimes being some 8.2 per cent and in Ontario and Provinces West some 4.7 per cent.

Satisfaction of Canadian Requirements

Canadian oil requirements are supplied jointly by production in Canada and imports of oil and products. In 1967, the breakdown was:

	Barrels per day	%
Indigenous Supplies	616,000	49.3
Imports	634,000	50.7
	1,250,000	100

Source: Dominion Bureau of Statistics

Markets for Canadian Oil

In addition to supplying one half of the Canadian requirements, considerable volumes of Canadian oil in 1967 were exported to the United States. Further details of the disposition of Canadian oil production in 1967 are shown below.

	1967	
Marketed in Canada	Barrels per day	%
British Columbia	103,000	10
Alberta	98,000	10
Saskatchewan	63,000	6
Manitoba and NWT	42,000	4
Ontario	310,000	30
Sub Total	616,000	60
Exports to United States		
Pacific Northwest (District V)	187,000	18
Great Lakes Area (Districts I & II)	210,000	20
Rocky Mountain States (District IV)	19,000	2
Sub Total	416,000	40
Total Deliveries	1,032,000	100
Inventory Changes, losses and adjustments	12,000	
Total Production	1,044,000	

Source: Oil and Gas Conservation Board.

Figure 1 depicts the pattern of disposition of Canadian oil in 1967.

Balance of Oil Imports and Exports

While the volumes of oil and products exported by Canada have grown significantly in recent years, the country remains a net importer:

1967

	Barrels per day
Imports	634,000
Exports	416,000

This position exists notwithstanding the existence of surplus installed and potential productive capacity in Canada. In this respect, the country is unique.

Summary

All producing areas in Canada except Alberta produce at or close to capacity. In 1967, Alberta produced at 33 per cent of potential capacity or 45 per cent of installed field capacity.

Canadian requirements for oil in 1967 were met 49.3 per cent from Canadian sources and 50.7 per cent from imports. Geographically, Canadian production meets most of the requirements of areas West of Ontario inclusive. Canadian oil exports constituted some 33.3 per cent of Canadian requirements.

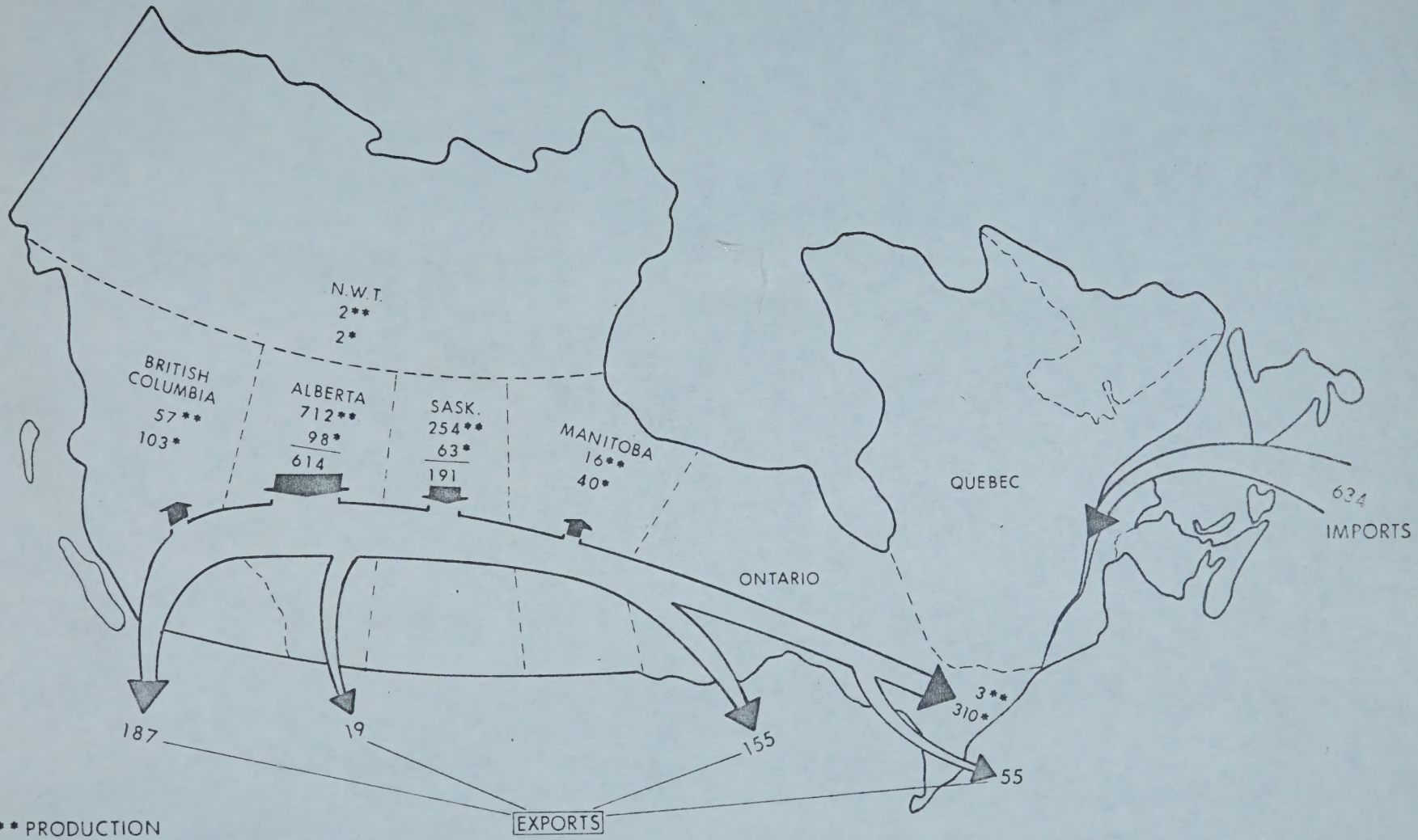

FIGURE 1

MOVEMENTS OF CRUDE OIL WITHIN, TO, AND FROM CANADA, 1967

(THOUSANDS OF BARRELS PER DAY)